

## AnhydroCyte

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Gary M. Jackson Assistant Administrator for Size Standards  
U.S. Small Business Administration 409  
Third Street, S.W. Washington, D.C. 20416

January 25, 2005

**Re: SBIR eligibility of companies owned by VC's - RIN 3245-ZA02**

Dear Mr. Jackson:

This letter is in response to a request for comments I learned about at luncheon held at the Montgomery County (Maryland) Biotech Incubator that dealt with whether businesses that are majority owned by VC's should be eligible for SBIR grants. I do not believe that in general that VC owned companies should be eligible for SBIR grants, unless the VC firm is itself a small business. Thus, the SBA should not provide an exclusion from affiliation with VC companies in determining small business eligibility for the SBIR Program.

Companies that are majority owned by venture capital firms controlled by large corporations or pension funds are not truly small businesses. These are not the type of companies for which the SBIR program was created to support.

While high-risk, long term R&D by companies of all size should be supported by the federal government, funding for larger companies should not be drawn from the 2.5% of federal R&D funding reserved for small businesses. To do so would remove a major funding source for emerging biotech companies, especially those developing early stage, high-risk technology or entering markets not appreciated by the VCs. The NIH, especially the NIH, should allocate a greater percentage of its overall extramural research budget (i.e. the 97.5% non-SBIR) to support innovative, high-risk product development that companies of all sizes can reasonably compete for. This 97% was not set aside for academia, though that sometimes seems to be the thinking of the NIH and its study sections.

I understand that my position differs from that of the Biotechnology Industry Organization (BIO). BIO does not speak for all biotech companies and certainly does not represent the interests of small, early stage biotech companies. The cost of BIO membership or participation in BIO events effectively excludes small companies. It speaks for its membership and funding base which substantially comprises large, publicly traded pharmaceutical companies as well large venture capital firms and other institutional investors.

Best regards,

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